
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Wastewater System: Senior Sewer Revenue Refunding Bonds

OVERVIEW

On March 24, 2009, the City Council adopted Ordinance O-19841 authorizing the Public Facilities Financing Authority (Authority) to sell not more than \$1.4 billion of sewer revenue and sewer refunding bonds to 1) finance wastewater system improvements, 2) refinance outstanding subordinated notes, and 3) refund outstanding senior bonds to achieve annual debt service savings. With respect to refunding outstanding senior bonds, the ordinance authorized the sale of not more than \$900 million of Sewer Refunding Bonds through one or more bond issuances on or before June 30, 2010.

Following this authorization, the Authority issued Senior Sewer Revenue Bonds, Series 2009A refunding \$50.05 million of outstanding senior bonds on May 13, 2009 and Senior Sewer Revenue Refunding Bonds, Series 2009B refunding \$633.20 million of outstanding senior bonds on June 9, 2009. Although Ordinance O-19841 allows for approximately \$217 million of additional refunding bonds, only \$179 million of outstanding senior bonds remain. As the Ordinance has already authorized most of the necessary financing documents, approval of the Preliminary Official Statement (POS) and the Bond Purchase Agreement (BPA) by resolution is all that is required to facilitate the proposed sale of Senior Sewer Revenue Refunding Bonds, Series 2010A.

In order to secure additional annual debt service savings by refunding the remaining \$179 million of outstanding senior bonds, the City Council is being asked to approve the POS and BPA for the Series 2010A bonds. The resolution also authorizes the City Attorney to appoint Quint & Thimmig LLP as Bond and Disclosure Counsel for an amount not to exceed \$60,000. This report briefly discusses the estimated savings associated with the proposed refunding. Additionally, we explain the difference between the \$179 million of outstanding principal being refunded and the principal amount of the Series 2010A bonds.

FISCAL/POLICY DISCUSSION

Based on recent interest rates in the public capital markets, staff estimates refunding the remaining \$179 million of outstanding senior bonds results in total net present value savings of approximately \$8.4 million or 4.71%. Section 8.2 of the City's Debt Policy states that the City will consider a refunding only when there is a net economic benefit (i.e., when there is an aggregate net present value savings, expressed as a percentage of the par amount of the refunded bonds of at least 3%). If interest rates remain relatively unchanged until the proposed sale of the Series 2010A bonds in early April 2009, the estimated net present value savings satisfy the City's Debt Policy requirement.

As shown in Attachment 1 of the staff report (attached), the proposed refunding results in approximately \$730,000 of annual debt service savings through FY 2023, increasing to approximately \$2.6 million from FY 2024 through FY 2029. The increase in annual debt service savings beginning in FY 2024 is because payments are interest only until FY 2024. The refunding of larger debt service payments (inclusive of principal) beginning in FY 2024 results in greater annual debt service savings.

The second column of Attachment 1 entitled "Existing Combined Principal" totals approximately \$179 million, which is the amount of outstanding senior bonds proposed to be refunded. The fourth column of Attachment 1 entitled "Estimated Refunding Principal" totals approximately \$166 million, which reflects the amount being borrowed to facilitate the refunding. Given recent City Council interest in debt service payment schedules related to refunding outstanding City debt, the \$13 million difference between the estimated amount borrowed (\$166 million) and the outstanding amount expected to be refunded (\$179 million) is discussed below.

A difference between the amount borrowed and the amount being refunded is typical for a refunding. Several component factors explain the difference. These components depend in part on bond market conditions and can vary from one refunding to the next. Based on estimates for the proposed Series 2010A bonds, the following factors comprise the approximate \$13 million difference between the amount borrowed and the amount refunded:

\$ 6.5M	Funds available due to reduction in the new debt service reserve requirement
\$ 8.5M	Funds available from an estimated original issue premium paid by underwriters
(\$ 1.1M)	Costs of Issuance for the Series 2010A refunding bonds
(\$ 0.5M)	Call Premium paid for the outstanding bonds
<u>(\$ 0.4M)</u>	<u>Interest Costs between closing date and call date</u>
\$13.0M	Net Difference between the amount borrowed and the amount refunded

The above bond sizing and annual debt service savings estimates should remain relatively unchanged provided that estimated bond market conditions, interest rates and the timing of the proposed Series 2010A bond sale hold.

As noted in the staff report, the Disclosure Practices Working Group (DPWG) met twice in February 2010 to review and approve the POS for the Series 2010A bonds. On March 18, 2010, the City Attorney issued a memorandum to the City Council concerning disclosure responsibilities under federal securities laws. Certifications from the DPWG and various City officials involved in the preparation and review of the disclosures are attached to this memorandum.

CONCLUSION

The IBA has reviewed the proposed financing plan and associated bond documents with representatives of the City's financing team. Based on current interest rates, the proposed refunding is estimated to result in approximately \$730,000 of annual debt service savings through FY 2023, increasing to approximately \$2.6 million from FY 2024 through FY 2029. Given the potential savings to Wastewater System ratepayers, the IBA recommends City Council approval of the resolution authorizing the form and content of the POS and BPA for the Senior Sewer Revenue Refunding Bonds, Series 2010A bonds.

The IBA has been informed that representatives of the City's financing team will be present for the City Council meeting on March 23, 2010. The IBA encourages the City Council to ask any questions they might have directly to members of the City's financing team, including the City's financial advisor, bond and disclosure counsel, and the underwriters.

[SIGNED]

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Attachment: Attachment 1 from Report to City Council #10-032